

**Supporting Statement for the  
Studies to Develop and Test Consumer Regulatory Disclosures  
(FR 1380; OMB No. 7100-to be assigned)**

**Summary**

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to implement new voluntary Studies to Develop and Test Consumer Regulatory Disclosures (FR 1380; OMB No. 7100-to be assigned). The studies would gather qualitative and quantitative information from consumers and financial institutions. The consumer studies would gather information about their knowledge of, and attitudes toward, consumer disclosure statements issued by financial institutions in compliance with the Federal Reserve consumer regulations. The financial institution studies would gather information from the industry regarding products, disclosure, marketing, advertising, and sales practices. The Federal Reserve proposes to conduct up to 2,934 hours of consumer testing and 22,500 hours of industry testing per year. The total annual burden for this information collection is estimated to be 25,434 hours.

The Federal Reserve is required to implement and subsequently review these requirements every three years pursuant to the Paperwork Reduction Act of 1995 (PRA), which classifies reporting of information to the agency as an “information collection.”<sup>1</sup> A notice to implement was published, on March 15, 2006, in the *Federal Register* for public comment.

**Background and Justification**

The Congress has assigned the Federal Reserve Board the duty of implementing a number of federal laws intended to protect consumers in credit and other financial transactions and to ensure that consumers receive comprehensive information and fair treatment. Federal Reserve is responsible for drafting regulations and interpretations to carry out the purposes of these consumer protection laws. These studies would be used in support of the Federal Reserve’s development and implementation of regulatory revisions.

The Federal Reserve seeks to develop and implement regulatory policies based on information garnered from both consumers and industry entities that would enable consumers to make better financial decisions based on sound information and a clear understanding of how to use that information to meet their personal needs. Accordingly, the Federal Reserve periodically surveys consumers and financial institutions to identify key issues and review and evaluate consumer disclosures for effectiveness. Direct information about consumer knowledge and use of disclosure statements would best be obtained through studies of individuals and financial institutions that engage in consumer lending and provide other financial products.

The Federal Reserve currently has three approved information collections permitting the Federal Reserve to conduct frequent surveys of consumers and several other collections that survey the industry. However, none of the approved information collections specifically solicit feedback from these groups with regard to consumer regulations.<sup>2</sup> In addition, an information

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<sup>1</sup> 44 U.S.C. § 3501 *et seq.*

<sup>2</sup> The Studies of Board Publications (FR 1373a,b; OMB No. 7100-0301) comprise two studies. The FR 1373a is

collection that is specifically targeted to the development of consumer regulations would enable the Federal Reserve to avoid the inefficient process of having to extend the comment period in order to obtain data from consumers.<sup>3</sup>

## **Description of Information Collection**

In order to better understand consumer attitudes and knowledge of the Federal Reserve's consumer regulations and to make disclosure statements more comprehensible and usable, the Federal Reserve proposes to conduct studies of consumers and financial institutions. These studies could take the format of focus group discussions, face-to-face interviews, telephone interviews, mall intercept testing, written questionnaires (paper or web based), or controlled experiments. The size of consumer focus groups would vary depending on the topics being discussed and the format of the sessions. Experience has shown that focused discussions of not more than twelve to fifteen participants are most productive.

Written surveys or questionnaires could include categorical questions, yes-no questions, ordinal scale (such as Likert scale) or ranking scale questions (which ascertain respondent's views on the degree to which something fits a particular criterion; for example, on a scale of 1, "strongly agree" to 5, "strongly disagree"), and open-ended questions.

The studies could be conducted through a private firm, which would be chosen in a competitive bidding process.<sup>4</sup> The research instruments could be developed by the Federal Reserve alone or jointly with the firm selected by the Federal Reserve. The firm would be responsible for following the sampling protocol established by the Federal Reserve, conducting the study, preparing a data file containing the responses, computing analysis weights, and documenting all study procedures. Data editing and analysis of survey results would be conducted solely by the Federal Reserve or jointly with the firm.

In the subject areas covered by the studies, much of the information needs to be obtained via surveys of consumers, either because (1) personal attitudes, opinions or evidence of understanding are sought, or (2) the desired information is not compiled by financial institutions, or the information is compiled and is proprietary. In addition, the studies could survey financial institutions to obtain information about their consumer product offerings and disclosure and

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used to: 1) conduct periodic reviews and evaluations of the consumer education materials, and 2) develop and evaluate consumer education materials under consideration for distribution. The FR 1373b data help determine if the Federal Reserve should continue to issue certain publications and, if so, whether the public would like to see changes in the method of information delivery, frequency, content, format, or appearance. The Ongoing Intermittent Survey of Households (FR 3016; OMB No. 7100-0150) obtains household-based information specifically tailored to the Federal Reserve's policy, regulatory, and operational responsibilities. The Survey of Consumer Finances (FR 3059; OMB No. 7100-0295) collects data on the assets, debts, income, work history, pension rights, use of financial services, and attitudes of a sample of U.S. families.

<sup>3</sup> For example, in 1999, when the Federal Reserve conducted consumer testing to develop rules regarding the electronic delivery of disclosures to consumers, it was necessary to extend the public comment period in order to survey consumers.

<sup>4</sup> Some survey firms used by the Federal Reserve to conduct past surveys include the University of Michigan's Survey Research Center (SRC), NORC (a social science and survey research organization at the University of Chicago), and the Research Triangle Institute in Charlotte, NC.

marketing practices with respect to those products.

**Consumer-focused studies would seek to ascertain consumers’:**

- ability to notice, comprehend, and use disclosures;
- preferences about the delivery of information (content, format, timing, and method);
- comprehension of particular deliveries of information (electronic and paper media);
- abilities to use a particular method of delivery, such as email; and
- skills and practices in searching, shopping, and negotiating for credit or other financial products.

**Financial institution-focused studies would seek to ascertain the:**

- effect of disclosure, marketing, advertising, and sales practices of the mortgage and consumer credit industries;
- effect of disclosure, marketing, advertising, and sales practices of other financial services or products sold by banks;
- terms of credit agreements;
- influence of the Consumer Reinvestment Act (Reg BB; CRA) and other fair lending regulations on the financial institution’s involvement in lending and community development; and
- effect of marketing and other industry practices on the availability and price of credit to consumers of different races, ethnicities, genders, incomes, and geographic locations.

If approved, this information collection would allow the Federal Reserve to study consumers and financial institutions regarding all consumer regulations and guidance disseminated by the Federal Reserve. The areas of focus of anticipated studies, include, but are not limited to:

- Regulation E (Electronic Fund Transfers) initial disclosures and periodic statements;
- Regulation P (Privacy of Consumer Financial Information);
- Regulation V (Fair Credit Reporting) affiliate marketing opt out and risk-based pricing notices;
- Regulation Z (Truth in Lending) potential new or revised disclosures for mortgage credit and other secured credit and for unsecured credit-disclosures concerning the cost of credit, other terms of credit, the risks of credit, procedural and substantive rights of the consumer, etc.; and
- Electronic disclosures as substitutes for paper disclosures, in general.

If this information collection is approved, the first proposed study would focus primarily on revising and improving credit card disclosures required by the Truth in Lending Act (TILA).<sup>5</sup>

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<sup>5</sup> Credit disclosures are given at the following times during the life of a credit account: (1) “Schumer box” disclosures (for credit cards only) provided in direct-mail solicitations and applications; (2) initial disclosures provided at account opening; (3) statement disclosures provided periodically (such as monthly); and (4) subsequent disclosures, such as convenience checks/balance transfer checks, and notices provided when key account terms are changed.

The Federal Reserve's goal would be to gain a better understanding of what particular information consumers want or need to receive regarding their credit card accounts, and when the information would be most useful to the consumers. Another goal of the study would be to learn whether consumers understand the information provided, and what language and format(s) would ensure that consumers read and understand the information, as well as act on it, if appropriate. Because credit card disclosures can be given either in paper or electronically, the Federal Reserve is also interested in exploring what format(s) facilitate consumer understanding in each delivery method. For further information on the TILA disclosures that would be reviewed in the proposed study and goals of the proposed study, see Attachment I.

### **Time Schedule for Information Collection and Publication**

For each study conducted under this information collection, the Federal Reserve would (1) determine the type of survey to be conducted, (2) choose a test group or groups, (3) refine and test the survey questionnaire, if needed, and (4) initiate the sampling protocol. The Federal Reserve expects that the first surveys would be conducted during the second quarter 2006.

#### **Proposed Project Milestones for TILA Study**

Phase and Task	Deliverables	Weeks into project
Phase 1		
Task 1. Contractor meets with the Federal Reserve	Meeting notes, screener and moderator's guide	1-2
Task 2. Focus groups	Videotape/DVD, audiotape, transcripts, survey data in Excel format, briefing report	3-10
Task 3. Optional focus groups	Videotape/DVD, audiotape, transcripts, survey data in Excel format	3-10
Task 4. Optional focus groups on lines of credit	Videotape/DVD, audiotape, transcripts, survey data in Excel format, report	To be determined
Phase 2		
Task 1. Design meetings	Sample disclosures for testing	11-18
Phase 3		
Task 1. Optional pretest	Screener, moderator's guide, videotape/DVD, transcripts	19-20
Task 2. Cognitive interviews	Screener, moderator's guide, videotape/DVD, transcripts, briefing report	21-27
Task 3. Optional cognitive interviews	Screener, moderator's guide, videotape/DVD, transcripts, briefing report	28-30

Task 4. Interim report	Report	31-33
Phase 4		
Task 1. Consulting & clarifying	Expert advice on rule proposals being developed	31-47
Task 2. Other project work as needed	Example: Initial drafts of study design and survey materials	31-47
Phase 5		
Task 1. Revisions to disclosures	Sample disclosures for testing	48-50
Task 2. Cognitive interviews	Screeners, moderator's guide, videotape/DVD, transcripts, briefing report	51-55
Task 3. Optional cognitive interviews	Screeners, moderator's guide, videotape/DVD, transcripts, briefing report	56-58
Task 4. Second interim report	Report	58-60
Phase 6		
Task 1. Experimental and survey instrument design	Survey instrument	61-63
Task 2. Site selection & training	Training materials, contracts with sites	64-66
Task 3. Sampling design	Report on sampling protocols	67-69
Task 4. Pre-testing	Report and suggestions for revisions to survey instrument	70-71
Task 5. Conduct survey	Final survey instrument	72-75
Task 6. Analysis & data delivery	Data set, documentation, descriptive analysis report	76-78
Task 7. Suggested modifications	Report	79-80
Task 8. Final report	Report	81-84

The Federal Reserve generally does not publish the survey data that it obtains through consumer testing and surveys. Survey information is frequently cited, however, in published material such as in professional journals, in the *Federal Reserve Bulletin*, and in testimony and reports to the Congress. Information that could possibly identify respondents would be excluded from the public-use data.

### Consultation Outside the Agency

In preparation for this proposal, the Federal Reserve spoke with three firms for insight on how to conduct the Regulation Z project. If the Federal Reserve contracts with an outside firm it may consult further with the firm in the development of the research instrument.

### **Sensitive Questions**

These studies contain no questions of a sensitive nature, as defined by OMB guidelines.

### **Legal Status**

The Board's Legal Division has determined that these studies are authorized pursuant to the: Home Mortgage Section 806 (12 U.S.C. § 2804(a)); Community Reinvestment Act, Section 806 (12 U.S.C. § 2905); Competitive Equality Banking Act, Section 1204 (12 U.S.C. § 3806) (adjustable rate mortgage caps); Expedited Funds Availability Act, Section 609 (12 U.S.C. § 4008); Truth in Saving Act, Section 269 (12 U.S.C. § 4308); Federal Trade Commission Act, Section 18(f) (15 U.S.C. § 57a(f)); Truth in Lending Act, Section 105 (15 U.S.C. § 1604); Fair Credit Reporting Act, Section 621 (15 U.S.C. § 1681s(e)); Equal Credit Opportunity Act, Section 703 (15 U.S.C. § 1691b(a)); Electronic Funds Transfer Act, Section 904 (15 U.S.C. § 1693b) and Gramm-Leach-Bliley Act, Section 504 (15 U.S.C. § 6804). Respondent participation in the survey is voluntary. If the Federal Reserve contracts with an outside firm, no issue of confidentiality would arise because names and any other characteristics that would permit personal identification of respondents would not be reported to the Federal Reserve Board. However, if there is no contractual agreement between the Federal Reserve and the outside firm regarding the reporting of respondent identifying data, or if the Federal Reserve conducts the survey itself, then the information would likely be considered an agency record subject to the Freedom of Information Act (FOIA). Nevertheless, confidential treatment for consumer identifying data would be warranted under subsection (b)(6) of the FOIA. The confidentiality of the information obtained from financial institutions will be determined on a case-by-case basis when the specific questions to be asked on each particular survey are formulated, but before respondents are contacted. Depending upon the survey questions, confidential treatment could be warranted under subsection (b)(4) of the FOIA. 5 U.S.C. § 552(b)(4) and (6).

### **Estimates of Respondent Burden**

As shown in the following table, the total annual burden is estimated to be 25,434 hours. The Federal Reserve anticipates conducting up to four qualitative and four quantitative studies per year. Each consumer participant should be able to complete the qualitative and quantitative studies in an hour and a half and twenty minutes, respectively. The actual number of studies would be dependent upon issues of immediate concern, arising from Federal Reserve committee initiatives and working groups, economic developments, or requests from the Congress. It is not always feasible to propose a survey and wait for the completion of the sixty-day public comment period and the remainder of the clearance process to obtain timely and accurate data.

The Federal Reserve would send studies to 1,000 financial institutions in anticipation of receiving a 30 percent response rate. The estimated 300 participants should be able to complete the study in fifteen hours. The total proposed burden represents less than 1 percent of total Federal Reserve System burden.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<u>Consumer surveys</u>				
Qualitative testing	225	4	1.5	1,350
Quantitative testing	1,200	4	0.33	1,584
<u>Institution surveys</u>				
Quantitative testing	300	5	15	<u>22,500</u>
<i>total</i>				<u>25,434</u>

Based on a rate of \$20 per hour for consumer participation, the proposed estimated cost to the consumers for the surveys is \$58,680. Based on the formula provided in footnote 7 the proposed estimated cost for industry participants is \$1,178,550. The total proposed cost to consumers and the industry is estimated to be \$1,237,230.<sup>6</sup>

### **Cost to the Federal Reserve System**

The Federal Reserve would incur costs in terms of its time for development and analysis, and contractual services for a firm to implement the data collection portion of the study. The total cost to the Federal Reserve System for this information collection is estimated to be approximately \$350,000, based on estimates of similar studies.

<sup>6</sup> Total cost to the industry participants was estimated using the following formula. Percent of staff time, multiplied by annual burden hours, multiplied by hourly rate:

- (1) 40% - Clerical @ \$25.00,
- (2) 46% - Managerial or Technical @ \$55.00,
- (3) 7% - Senior Management @ \$100.00, and
- (4) 7% - Legal Counsel @ \$144.00.

## Attachment I Proposed Truth in Lending Act Study

### Purposes of each disclosure and possible goals for testing

#### **Schumer box disclosures:**

- *Purpose:* These disclosures are given on or with direct-mail solicitations and applications for credit cards to help consumers shop for credit cards.
- *Proposed goals for testing:*
  1. What credit terms are important to consumers as they shop for credit cards?
  2. What formats are effective in presenting these key credit terms to consumers so that they can understand and use them to shop for credit cards?
  3. The statute requires that, in a direct mail solicitation, the information be presented in a tabular format.
  4. Are there variations on the current tabular model that would significantly improve the disclosure's utility?

#### **Initial disclosures:**

- *Purpose:* These disclosures are given when the credit card account is opened to inform consumers about the terms of the credit card. These disclosures are usually combined with other contract terms, and are not subject to any particular formatting requirements or models (other than the disclosures must be clear and conspicuous).
- *Proposed goals for testing:*
  1. What key terms need to be disclosed to consumers at account opening so that consumers can quickly understand the important terms of the credit card, to prevent "surprises" when they open accounts or later?
  2. Would highlighting key terms improve the effectiveness of account-opening disclosures? If so, what formats are effective in highlighting these key terms to consumers so that consumers can locate information easily?
  3. Would a format requirement similar to the Schumer box that highlights some or all of the same terms in the Schumer box significantly improve account-opening disclosures?

#### **Periodic statement disclosures:**

- *Purpose:* These disclosures typically are given on a monthly basis to inform the consumer about the transactions, fees and finance charges incurred in the previous billing cycle. The disclosures also inform consumers of the date by which they must pay the new balance in order to avoid additional finance charges, and the annual percentage rates (APRs) that apply to the account. The disclosures also typically inform consumers about their rights to dispute charges and how to exercise those rights.
- *Proposed goals for testing:*
  1. What information on the periodic statement is most important to consumers?
  2. Information about transactions, fees, and finance charges incurred in the past billing cycle.
  3. Information about how payments were allocated in the past billing cycle.



4. Information on how to avoid fees and finance charges in future billing cycles.
5. Information on when payments are due and effects of making only the minimum payment.
6. Information so consumers can “do the math” to verify that the finance charges were calculated correctly.
7. Information on how to dispute charges.
8. Information about key terms on the account to help them compare their existing account with credit card offers.
9. What are effective ways to present the most important information to consumers?
10. Do consumers want or need information about the cost of credit in the previous billing cycle? If so, what are effective ways to express this information to consumers? Effective APR? Total fee amount?

### **Change-in-terms notices:**

- *Purpose:* These disclosures are given when a change is made to key terms of the account.
- *Proposed goals of testing:*
  1. What do consumers want to know from these change-in-terms notices? Just the change being made? Key terms of the account so that they can compare their existing account with other credit card offers?
  2. What formats are effective in presenting this key information to consumers so they will notice, understand and be able to use the information?
  3. What are effective ways to deliver change-in-terms notices to consumers so that they will notice them? Separate mailing? Statement messages or stuffers in periodic statements?
  4. What actions do consumers take in response to change-in-terms notices? Begin to shop for another card? How much advance notice do consumers need before the change becomes effective? Is a longer time needed when certain terms are being changed (such as APRs), than when other terms are changed?

### **Convenience checks/Balance transfer checks:**

- *Purpose:* Convenience checks and balance transfer checks are given to consumers as additional devices to access their credit card accounts.
- *Proposed goals of testing:*
  1. What disclosures do consumers need or want on convenience checks/balance transfer checks? Is it sufficient to refer the consumer to the initial disclosures for key terms (e.g., fee for using the check)?
  2. What formats are effective to present the key terms to consumers on convenience checks/balance transfer checks so that they will notice, understand, and be able to use the information?